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Before the
Federal Communications Commission
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Federal-State Joint Board)	CC Docket No. 96-45
)	
Forward-Looking Mechanism For)	CC Docket No. 97-160
High Cost Support)	

**COMMENTS ON PROPOSALS TO MODIFY
THE UNIVERSAL SUPPORT METHODOLOGY**

BellSouth Corporation, on behalf of itself and its subsidiaries, ("BellSouth") hereby submits its comments on the proposals to revise the methodology for determining universal service support.

On April 27, 1998, BellSouth proposed an alternative method to calculate universal service support. Fundamental to BellSouth's proposal is its recognition of the Commission's intention to make explicit, the implicit support currently embedded in interstate access charges.¹ The Commission must establish a federal fund that is at least equal in size to the current High Cost Fund and the implicit support in interstate access charges. Current interstate access charges recover end-user loop-related costs from interexchange carriers through a combination of usage sensitive and per-line access charges. These carrier access charges go directly to support the service provided to residential end users and, hence, contain implicit support for universal service. Unless the federal fund is sufficient to recover the High Cost Fund and the support implicit in current access charges, the Commission cannot realize its objective that no state shall

¹ See *In the Matter of Federal-State Joint Board on Universal Service, Report to Congress*, CC Docket No. 96-45 (FCC 98-67), released April 10, 1998 ("Report to Congress").

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receive less universal service support after the new federal fund is implemented than it receives today through existing implicit and explicit mechanisms.²

Thus, the focal point of BellSouth's proposal was the determination of existing interstate implicit and explicit support. Such determination represented the floor for the federal universal service fund. It was the minimum amount necessary to convert all of the current interstate universal service support mechanisms into a single, explicit federal universal service fund.

Several LECs and state commissions express concern that a federal fund that is limited exclusively to replacing existing interstate mechanisms will be insufficient to meet both the letter and the spirit of the universal service provisions of the Communications Act.³ As a general matter, these commenters observe that the federal fund as originally proposed by the Commission would leave the responsibility for the majority of universal service support to the individual states. For some states, removing all the implicit support and making such support explicit would threaten the concept of "affordable" rates for universal service. Accordingly, several commenters offer alternative universal service approaches that recognize these special circumstances and assign a portion of the responsibility for universal service support, which has heretofore been considered an intrastate responsibility, to the federal fund.⁴

As BellSouth made clear in its comments accompanying its proposal, BellSouth's revised methodology would establish the minimum federal fund necessary to assure that current

² *Report to Congress* at ¶ 226.

³ *See generally* Comments of Colorado, Sprint and GTE.

⁴ For example, US West's proposal incorporates a super benchmark. Between the Commission's benchmark and the superbenchmark, the federal fund will provide 25 percent of the universal support. Above the superbenchmark, the federal fund would be responsible for 100 percent of the universal service support. GTE suggests that the Commission consider multiple benchmarks, using a sliding scale.

interstate implicit and explicit levels of support are maintained in the new federal fund. Nothing in BellSouth's methodology, however, precludes the Commission from identifying circumstances under which states would be provided with additional federal support. Indeed, BellSouth's approach lends itself to such an adaptation.

In view of the substantial concerns expressed about individual states' abilities to address existing intrastate implicit support, BellSouth concurs with the observations of other parties that the federal fund should provide some additional assistance to the states. BellSouth recommends that such additional assistance be determined subsequent to the determination of the amount necessary to maintain existing implicit and explicit support.

BellSouth's proposal identifies existing interstate implicit and explicit support for universal service. This support would contribute to the total recovery of universal service costs as determined by a forward-looking cost model. The difference between the interstate support and the total cost of universal service represents an adjusted cost for universal service that must be recovered through end-user rates for service⁵ or through implicit support. If the federal fund provides no further support for universal service, then the difference between the end-user rates and the adjusted cost would be an intrastate universal service responsibility. In order to address the concerns that some states need additional assistance, the Commission should establish a safety-net benchmark. The difference between the safety-net benchmark and the adjusted cost would be the amount of additional support that would be provided from the federal fund that would be used by state commissions to reduce existing intrastate implicit support. Attachment 1 depicts the operation of the federal universal service fund with a safety-net benchmark.

⁵ In this context, end-user rates include interstate subscriber line charges.

This adaptation of BellSouth's proposal identifies and insures that existing levels of interstate implicit and explicit support will be maintained. It also enables the Commission to explicitly quantify the amount of additional support to provide to states to reduce existing intrastate implicit support. Identification of the amount of support that goes to reduce interstate implicit support versus intrastate implicit support is an important attribute that is essential to make certain that the requirements of the Communications Act are fulfilled.⁶ Adapting BellSouth's proposal to include a safety-net benchmark, thus, addresses the state universal service needs that have been raised by numerous state commissions and NARUC.

While state commissions have adequately documented the need for the Commission to provide additional support to the states, there is an additional public interest benefit for the federal fund to accommodate such universal service needs. Carriers' contributions to the federal universal service fund could be recovered in a uniform, nationwide charge, thereby making the impact on consumers neutral, irrespective of where the consumer lives. In contrast, the greater the responsibility of individual states to address universal service needs, the greater the

⁶ The statute requires the Commission make interstate implicit support explicit. It cannot simply ignore existing interstate implicit support, as would be the case under the Ad Hoc Working Group plan which would use the amounts collected through the federal universal service fund in excess of the existing High Cost Fund to reduce intrastate implicit support. BellSouth's proposal addresses existing interstate implicit support. It takes, the next step, however, to provide for support for intrastate implicit support in a way that states can, with certainty, identify the amount of additional federal support they will receive. Further, to the extent that the Commission finds that there are state needs beyond those accommodated by a safety-net benchmark, such as the type presented in the Ad Hoc Working Group plan, BellSouth's proposed framework continues to provide the correct foundation for the federal universal service fund.

likelihood that consumers in different states will be affected disparately—a result that appears to conflict with the objectives of universal service.⁷

Incorporating additional support for states in the federal universal service fund brings with it a need to revisit the revenue base upon which contributions to the federal fund are calculated. Broadening the scope of the federal fund justifies using both intrastate and interstate retail revenues as the assessment base for the federal fund. This is a step the Commission should take when it adopts a revised universal service methodology.

A revised methodology that maintains the existing level of support for each state that current interstate mechanisms provide as well as provides additional support to states as circumstances warrant is readily achievable by the Commission. BellSouth has provided a methodology that is straightforward and is easily implemented and administered.⁸ The Commission must move forward with fulfilling its statutory obligation to implement a federal universal service fund and to eliminate implicit subsidies. While it has been suggested that the

⁷ The impact on consumers is often overlooked, particularly by those commenters who focus their analysis on whether a state is a net contributor or a net recipient of universal service funds. For example, the comments of the Telecommunications Industry Analysis Project attempt to model the effects of various universal service proposals. The element that is missing from this effort is the consumer impact and the benefit that accrues to consumers from a federal fund that assumes a reasonable share of the responsibility of universal service.

⁸ In contrast, Time Warner has concocted a means-based proposal that is an administrative nightmare that could not be implemented. While Time Warner contends that the administrative burdens of its proposal would be more than offset by reductions in universal service support, such assertions are unsupported by empirical data. The fact of the matter is that the type of income data necessary to implement Time Warner's proposal is not readily available and Time Warner provides no credible explanation of how such data can be obtained. Basing universal service support and the rate a customer pays on a customer's income would cause substantial customer confusion and would be contrary to the public interest.


Commission delay implementing the new universal service fund beyond January 1, 1999,⁹ to do so would be an abdication of the Commission's statutory responsibilities. Implementation of a new, explicit universal service fund is not discretionary. At the Commission's invitation, state commissions have worked diligently with the Commission to resolve outstanding universal service issues. The Commission's response to these efforts cannot simply be to put universal service support on hold.

Accordingly, BellSouth urges the Commission to adopt its model for the determination of a federal universal service fund.

Respectfully submitted,

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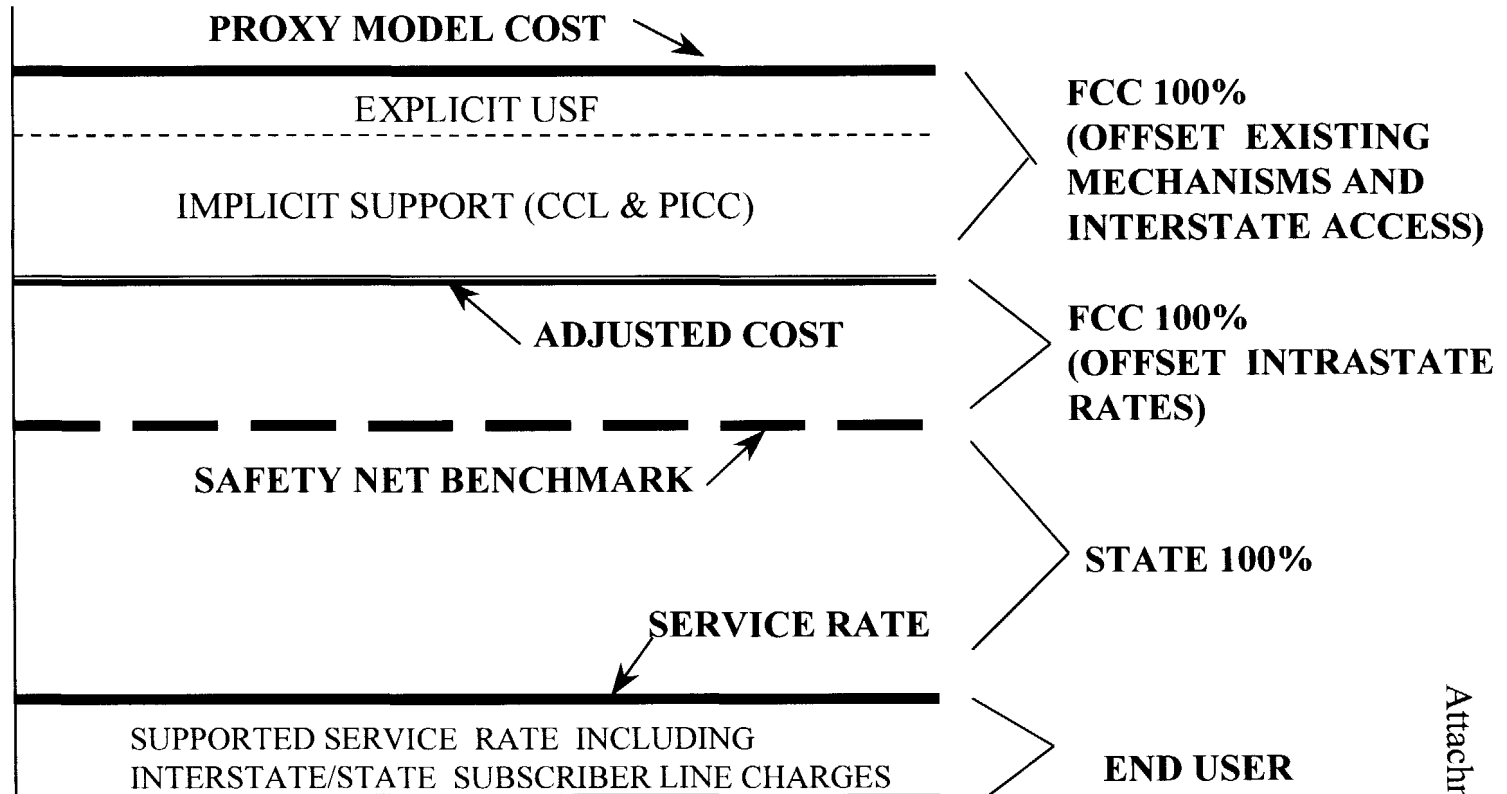
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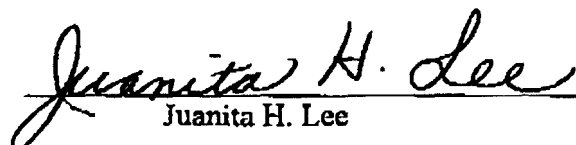
⁹ See Presentation of Joel Lubin AT&T Corp To CC Docket 96-45 Universal Service En Banc On 25/75 Federal/State Responsibility For High Cost Support.

POSSIBLE COMPROMISE SOLUTION FOR FEDERAL USF



CERTIFICATE OF SERVICE

I do hereby certify that I have this 15th day of May 1998 served the following parties to this action with a copy of the foregoing COMMENTS ON PROPOSALS TO MODIFY THE UNIVERSAL SUPPORT METHODOLOGY by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties listed on the attached service list.



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